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## A PLEA FOR RAILWAY CONSOLIDATION.

BY COLLIS P. HUNTINGTON, PRESIDENT OF THE SOUTHERN PACIFIC RAILROAD COMPANY.

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THE question has often been asked of railroad men, What is the remedy for rate wars and the demoralization that results from the rate-cutting incident to their business as at present conducted ? I know of but one answer to this question, and that is consolidation or joint ownership ; and as the solution of a purely business problem I began advocating this many years ago. The process of consolidation itself (which is simply the endeavor to secure the largest possible amount of tonnage and transport it with the least expenditure of money) is a logical outgrowth of circumstances, and, although the projectors of the earlier lines did not perhaps foresee the advantage, and even the necessity, of it, yet it was not long before the natural tendency of railroad corporations towards unification of interests began to manifest itself.

There are men now living in the full activities of life who have travelled from Albany to Buffalo over the Albany and Schenectady, Schenectady and Utica, Utica and Syracuse, Syracuse and Auburn, Auburn and Rochester, and Rochester and Buffalo railroads, all of which were connected in a continuous line of track. But it was very soon discovered by the proprietors of these fragments of roads, so to speak, that they gave little return to their owners, while the result to the people who used them was unsatisfactory, as it was difficult to get through rates of freight and, when obtained, to locate the responsibility for damage to property, or for detention in transit from the point of shipment to destination.

The disadvantages arising from this lack of unity have induced a continuous effort from that date to the present time, on the part of the builders of railroads, to devise ways by which the people could be better served and the owners more satisfactorily compe-

sated for their risks and outlays of capital, until the ablest men have come to the conclusion that the most effective, and probably the only practical, remedy for the many evils and demoralizations that now exist is joint ownership, as it would appear that only in that way can the minimum of cost of transportation, and, therefore, the maximum benefit to the public and to the roads, be secured ; and this, too, to use the words of Lincoln, "not rending or wrecking anything," but, instead of this, creating harmony out of discord, order out of confusion, and largely increasing the value of the property of the stockholders of each road, each of whom thus becomes a stockholder in the whole property.

Thus came into existence the present New York Central and Hudson River Railroad, from which the general public has reaped enormous advantages, while the owners have been rewarded by an exchange of shares of little or no worth for stock in the new organization, of vastly increased value. This great corporation may be said to represent the genius of that giant of railway finance, Cornelius Vanderbilt, whose keen foresight, indomitable will, and tireless energy combined to produce this example of railway enterprise.

The same may be said of that vast network of roads controlled by the Pennsylvania Railroad Company, which has been slowly but steadily built up by purchase and consolidation, by the inter-weaving, as it were, of many short roads of little or no value into the completed fabric known as the Pennsylvania system. To the organizing force and intellect of Edgar Thompson and, after him, of Colonel Thomas A. Scott, is due this unparalleled achievement in the history of railway-building. That the owners and managers of these and other large corporations of their kind have been able to continue the success that was guaranteed by the sagacious policy of their predecessors reflects no less credit on the earlier actors than it does upon their successors, who were quick to perceive the wisdom of the policy and mentally equipped to carry it out.

When both of the great systems alluded to were in the process of amalgamation they were severely criticised ; but I think no one will at this time dispute the fact that both of the organizations, as at present constituted, serve, and are able to serve, the people better than it was possible for the fragmentary sections of which they were composed to have done, and that they, moreover, give

much better returns to those who have invested their capital in them. As Sidney Dillon has well said in the April number of THE REVIEW, "Combinations that do not combine, and monopolies whose constant tendency during a long series of years has been to bring producers and consumers into closer relations with each other and lessen the cost of living to both, deserve praise and support rather than censure and adverse legislation."

That this merging of several properties into single organizations is a natural process of improvement is shown, also, by the fact that it is all the time going on and never takes a step backward ; and we have yet to learn of a single instance where it has been considered advisable, either by those financially interested or by the public, to disrupt a system thus consolidated and restore it to its original parts, or to make any part independent of the others. Nor has the writer ever known of a consolidation that has not brought a reduction of rates, except where there had previously been such a cutting of rates as would inevitably have landed the property into the hands of a receiver, with all its evil results to both the owners and the public, had not sagacious coun-cils arrested the impending ruin.

It is not for the interest of the public that property wisely created and capable of so much good to the country should be used in such a way as to invite bankruptcy, for by such mismanagement many needed improvements will not be created. There are a few individuals in every community, and probably always will be, who spend their lives in the effort to find some place where they can take up something without laying anything down, and to whom wasteful, and I might almost say wicked, competition among railroads is welcome, so long as it affects favorably their own individual pockets. From these people opposition to legitimate transactions that are based upon the principle of giving the greatest good to the greatest number may always be expected ; but I am satisfied that the mass of the intelligent people of the country look with disfavor upon the unhealthy strife between the railroads of this country, which has resulted not only in no permanent good to the patrons of the roads, but in irreparable harm to vested interests and the interruption of that process of development of the country's resources the advance of which, under a more enlightened policy, should be steady and rapid.

The time was when people were afraid of corporations and

looked upon them with jealousy and distrust ; but the history of the world's industry has, I think, taught the majority of the people that corporations are the means whereby the multitude can combine for mutual benefit and protection. In no other way can they compete with the vast capital that is concentrated in the hands of a few individuals ; and, this being so, the time should, and I believe will, soon come when communities will call for the same treatment of corporate property that is accorded to individual possessions. Then railroad corporations will not be unjustly interfered with in the exercise of their rights, based upon the most obvious rules of business, by such legislation as culminated some years ago in the Inter-State-Commerce Act.

It should be possible for the railroads to move the product of the farm and the lean ores of the mine at a small profit over train expenses, and thus develop large and important interests, as well as accommodate a large number of men by giving them employment that cannot be obtained when the rates on freight are arbitrarily fixed by law so that these products of the farm and the mine cannot be moved to a market that will take them. The great expense of operating a road of light traffic, the construction of which has been somewhat costly, consists not in the actual expense of running the trains themselves,—which includes only the wear of the track and machinery, the consumption of fuel, oil, and waste, and the wages of the crew,—but in the fixed charges, in which are included the interest on the cost of property, the taxes on the same, and the maintenance of the different departments connected with its management.

Where the price of moving a ton of ore is compulsory, whether ore be rich or lean, the rich will be sent to market and the poor will remain at the dump, instead of being removed, and thus possibly opening a path to richer and more remunerative beds of ore ; and in the case of forest products, the fine timber will be profitably taken out, without interfering with the profits of the lumberman, while the cheaper stuff will not be handled. Lean ores and cheap timber should be moved at a small profit over the actual train expenses, but this cannot be done under the present law. I believe the Inter-State-Commerce Act has caused the loss of millions of dollars to the producer, as it would seem evident that no manager of a railroad would fail to bring out over his line tonnage of this character, the marketing of which means so many dollars to the

lumberman and the mine-owner, employment to many who must otherwise remain unemployed, and the encouragement of worthy industries. These things are so apparent that they should be understood by all.

With many of the railroads of America, which run through large areas of arid country, the problem of existence is a hard one, and the only apparent solution is to secure something out of the bowels of the earth that will bear transportation ; and, upon the theory that there is something for man's use everywhere, it should be found here in the form of ores, possibly lean ores ; but so long as they will pay something over train expenses, their transportation may provide much work for men and some remuneration to those who carry them.

The railroads known as the overland or Pacific railroads have lost much business because of their inability, on account of the Inter-State-Commerce Law, to compete with the Canadian Pacific, which is able, through the fostering care of a paternal government, unrestricted by legislation, to bid for business on better terms than its American rivals. The struggle between the different companies is not for the interest of a majority of the people who use the railroad, as the very large shippers at the great competing points reached by two or more roads get an immediate benefit from the reduction of rates, while the small dealers are injured in their business to a very considerable extent. Assume that a hundred men are dealing in some particular commodity. Ninety-nine of them may each have a car-load, or less, to ship, which is not enough to make it an object for them to go and "shop" among the different transportation companies for rates ; and if they did, the tonnage is not enough to make it an inducement for the companies to cut the rate in their favor ; but one man who has, as is sometimes the case, five hundred car-loads to ship is vitally interested, and he accordingly goes about among the various roads until he finally succeeds in obtaining the desired rebates. This not only takes money from the railroad itself, but does great harm to the small shippers, who are crowded out of the market or compelled to sell their product at less net profit than they are fairly entitled to. The shippers who live along the line away from these competing centres are compelled to pay more, as the sums lost at the competing points must be recouped to prevent the railroad company from going into bank-

ruptcy, as very few of the small roads of the country are paying anything beyond their current and fixed expenses, leaving nothing for the holders of the shares.

What possible remedy is there for such a state of things except joint ownership? As a simple business proposition, it seems to me unanswerable, for, by its application, it can be readily seen that much of the expense of maintaining separate organizations and separate offices will be cut off, and a great multitude of agents and agencies will be dispensed with. On the side of the people quite as much good will be the outcome. The complaint of charging more for a short than for a long haul, which comes from the shipper located between instead of at the important centres, will cease to be heard, because the pernicious system of giving rebates and commissions, or whatever they may be called, that cost the roads so much money and really do their patrons, as a whole, so much harm, will no longer be practised, the excuse or necessity therefor no longer existing.

While the uniting of small roads has been productive of great benefits to the owners and to the public who use them, yet I am satisfied that the best results will not be reached until substantially all the transportation business of this country is done by one company. The accomplishment of this would reduce the cost of transportation to the minimum, which would admit of the lowest possible rates to shippers and passengers. There would be no longer any necessity of charging more for a short than for a long haul, except where water competition existed, as the crossing of railroads at various points would have no further effect upon the rate schedules.

The raising of rates at non-competing points is one of the things done by railroads which it is hard to explain to the satisfaction of those who buy transportation; but it will continue to be done as long as railroads are controlled by scattered interests, and neither agreements nor laws will entirely prevent it. If, on the contrary, all the railroads of the country were held in joint ownership, they would need much less rolling-stock than is now required, as the great staple crops of the country are moved at different seasons of the year, and cars and locomotives could be transferred from one section to another as needed, thus saving a large amount of capital which otherwise, for a considerable portion of the year, would be idle.

There is another feature of this question that is perhaps hardly taken into account in the public mind, because its bearing upon it appears, at first glance, to be remote ; but we are dealing with a problem of the future, and the time is coming when its close relation to it will be appreciated. The existence of an undoubted security for institutions and for the great mass of conservative investors of limited means, who demand above all other qualifications a security that shall be safe, and who rely upon their investments for the incomes which are to support themselves and their families, is soon to become a necessity in America. Our government bonds are constantly being called in and cancelled, whilst the surplus capital of the country is continually increasing. Unless a stable and safe security for the multitude is forthcoming, it does not need the astuteness of a financier to comprehend the possible situation of the future when the investor who seeks an assured income from his savings will have to place his reliance upon the wisdom of his own selection among a list of many hundreds of railway stocks and bonds, subject to all the serious fluctuations that follow in the wake of selfish competition and inefficient management.

The writer has never regarded the existence of a large national debt as an evil in a prosperous and growing country like the United States, whose obligations do not affect the credit of the government and are not significant of any financial embarrassment ; but our people have decided otherwise, perhaps not unwisely ; nevertheless there must be a substitute for the people to invest their savings in—a security that shall possess the confidence of the entire public. What shall it be ? It seems to the writer that nothing will be safer than shares or bonds of the united railroads of this country, and few, if any, other securities will be so easy to negotiate or raise money on. If this is true, why should not a very large number of the people who use these roads invest their money in such an organization, and thus become, to a large extent, the owners and controllers of the railroads that they use ?

Ours is a vast country, and no doubt produces more and a greater variety of food for man than any other nation on the earth. All are interested—those who produce and those who consume—in having the enormous tonnage of food gathered and distributed at the lowest possible cost. How to do it is the question that all want to see solved. It was once believed by many,

and it may still be thought by a very few, that if the farmer had no machinery for reaping, sowing, and gathering his grain, many would get employment and thereby be helped, even if it cost something more to produce. Is there any one who would be benefited by having the transportation cost more than the least possible sum for which the product of the farm could be moved ? If that be so, let us all look for that way. It cannot be done by little fragmentary companies, for they cannot practise the economies of wealth, as their poor road-beds, crippled rolling-stock, and lean management will testify. What is wanted is not more than two or three—and one would be better—great carrying companies, with their steel tracks and road-bed as nearly perfect as they can be, with all their machinery of the best quality, with their capacious warehouses at intermediate points, and their almost unlimited terminal facilities. With the best talent in the country to manage and control such an organization, many millions could be saved to those who use the railroads of this country, and millions also to those who own them over what is now being received by the fragmentary, badly-equipped, and inefficiently-managed roads that, with but few exceptions, now exist.

Some fears have been expressed that the great transportation companies of this country would override the rights of the people ; but surely there need be no apprehension of that, as certainly there is no danger. Any capitalist, or combination of such, would be weak—yes, worse than weak—to make the effort to stand between the people and their rights, and I am quite sure that few honest and intelligent citizens fear any such combination. To be sure, there are demagogues who cry “Monopoly !” and assert that the great corporations are about to override the liberties of the people ; but solicitude for the people is not the real reason of their outcry. It is because they hope to climb up on the noise they make into high places, and into seats that they are not worthy of and have not the ability to fill.

The branch of the government in which all good people have faith,—the sheet-anchor, so to speak, of all we hold dear,—the judicial department of the government, will stand between the rights of the many and the few, and—what is even more important, because the danger is greater—will see that the rights of the few are protected against the improvident, and hence impecuni-

ous, many. The rights of all should be and, I believe, will be protected. If not all, very soon none.

In the great trial of Warren Hastings, Edmund Burke, addressing the House of Lords, is reported to have said : "It is well for you to remember, gentlemen, that if the time should ever come when British law does not protect the life, the liberty, and the property of the humblest Hindoo upon the banks of the Ganges, no nobleman will be safe on the banks of the Thames."

Justice Brewer, of the United States Supreme Court, lately delivered an important address that should be read by every American citizen ; and amongst other things he said :

"Public attack upon private property appears conspicuously under the guise of regulation, where charges for the use are so reduced as to prevent a reasonable profit on the investment. The history of this question is interesting. Certain occupations have long been considered of a quasi-public nature—among these, principally the business of carrying passengers and freight. Of the propriety of this classification no question can be made. Without inquiring into the various reasons therefor, a common carrier is described as a quasi-public servant. Private capital is invested, and the business is carried on by private persons and through private instrumentalities; yet it is a public service which they render, and by virtue thereof public and government control is warranted. The great common carriers of the country, the railroad companies, insisted that, by reason of the fact that they were built by private capital and owned by private corporations, they had the same right to fix the prices for transportation that any individual had to fix the price at which he was willing to sell his labor or his property. After a long and bitter struggle, the Supreme Court of the United States, in the celebrated 'Granger' cases, reported in 94 U. S., sustained the power of the public and affirmed legislative control.

"The scope of this decision, suggesting a far-reaching supervision over private occupations, brought vigorously up the question as to its extent. On this line the struggle was again renewed and carried to the Supreme Court, which in the recent case of *Railway Company vs. Minnesota*, 134 U. S. 418, decided that regulation did not mean destruction; and that under the guise of legislative control over tariffs it was not possible for State or nation to destroy the investments of private capital in such enterprises; that the individual had rights as well as the public, and rights which the public could not take from him. The opinion written in that case by Justice Blatchford, sustained as it was by the court, will ever remain a strong and unconquerable fortress in the long struggle between individual rights and public greed."

What has been said in this article of those who deal in the products of the forest and mine applies to an even greater extent to the farmer and herdsman. Flexibility in the carrying-rates is needed, and there are many reasons why this should be so ; for the farmer often has poor crops, frequently the market therefor is

too low, and the best interest of the transportation company lies in helping him over these lean places, as it gives him heart to enter the year that is to follow with courage to plant largely, in the hope that, when the harvest time comes again, he will have a larger output, with better prices, and thus be able to recover the loss of the previous season ; while those who control the carrying companies and who, by their protective policy, have helped the farmer in the hour of his trouble and made him happy, would look back with satisfaction upon the wisdom of their own action, which has given them a continuing business, for nothing is much worse than having the cars and machinery of a railroad stand idle upon the tracks.

Again, a great drouth may occur in some sections of our vast country, and it becomes necessary under such circumstances to take out from such districts all the live-stock or to carry food in. Should this not be done, on humanitarian grounds alone, for lower rates than may be charged in sections not so afflicted, and that, too, without much regard to the distance ? And when such consideration on the part of the railroad company is really advantageous to itself in the long run, can there be any doubt of its wisdom ? What the carrying companies want is a continuing business and a fair profit for each decade, and in this reasonable expectation they should have the right to help their patrons during the "off" years, in the common interest.

Now, all this cannot be regulated by legislation, however carefully such legislation may be devised, simply because no provision of law can anticipate the varying requirements of trade. It can only be done by working upon flexible lines, so to speak, letting prices go up and down as will best serve the interest of both contracting parties. Why should it be otherwise ? The judicial branch of the government has decided that it has the power, under the constitution, to say what is a fair income for railroad and other quasi-public institutions that do business for and with the public. Why should State legislatures endeavor to arbitrarily fix the rates, when no doubt the best interest of both shipper and carrier will be served by a graduation of those rates in accordance with the changing conditions of business ? Of all property railroads should have the largest freedom, in order that they may be able to earn sufficient to pay a fair interest upon the capital invested, and to earn it in a way that shall most nearly conserve the interests of

their patrons and themselves. When a fair return upon invested capital has been received, the people, through the courts, can prevent rates from going up, and thus restrict the earnings of a railroad to reasonable figures.

Transportation companies can sometimes gather net money over train expenses in competition with water lines, and they should be allowed to do so, as their permanent way is expensive and fixed. It cannot be moved. The ship has its free right of way over all the seas, on which no taxes and no interest have to be paid ; but the railroad is often doubly burdened by a tax not only upon its shares—which are only the evidence of ownership—but upon its real property, which is frequently assessed above its actual value.

In the high dry lands in the centre of the continent a few people have sometimes confederated together and carved counties out of the desert where there was no necessity for their creation, and built court-houses and school-houses where they were not needed, simply because the establishment of these institutions gave them the power to tax the property of the new county to pay for the so-called improvements ; the principal, almost the only, property on which taxes could be levied being the railroad by which the so-called county is traversed. And after all this comes the politician with his demand for the appointment of men who, though possessing no interest whatever in the property, or knowledge or experience in its management, shall practically control its business by fixing the rates of fares and freights. Surely the time has come to call a halt, and, in the words of the great jurist, for the conservative branch of the government to step in “between individual rights and public greed.”

C. P. HUNTINGTON.